

Walden Green Montessori

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

Walden Green Montessori

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This section of the Walden Green Montessori's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Walden Green Montessori financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the School-wide financial statements. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A)

Basic Financial Statements

- School-wide Financial Statements

- Fund Financial Statements

- Notes to Financial Statements

Required Supplementary Information

- Budgetary Information for the General Fund

Reporting the School as a Whole—School-wide Financial Statements

One of the most important questions asked about the School is, as a whole, what is the School's Statement of Activities, which appears first in the School's financial statements. The Statement of Activities reports information on the School as a whole and its activities in a way that helps answer this question. We prepare this statement using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Activities and the Statement of Net Assets report the School's net assets—the difference between assets and liabilities—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets—as reported in the Statement of Activities—are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School's operating results. However, the School's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School, which encompass all of the School's services, including instruction and support services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the School's Most Significant Funds—Fund Financial Statements

The School's fund financial statements provide detailed information about the most significant funds—not the School as a whole. Walden Green uses two funds – a General Fund and a Capital Projects Fund – at this time. The funds use the following accounting approach:

Governmental funds—All of the School's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

The School as a Whole

Recall that the Statement of Net Assets provides the perspective of the School as a whole. The following table provides a summary of the School's net assets as of June 30, 2006 and 2005.

	2006 Governmental Activities	2005 Governmental Activities
<u>Net Assets</u>		
Assets		
Current and Other Assets	\$ 4,381,477	\$ 344,874
Capital Assets	393,231	330,362
Total Assets	<u>4,774,708</u>	<u>675,236</u>
Liabilities		
Current Liabilities	100,204	41,580
Long-term Liabilities	4,432,534	316,312
Total Liabilities	<u>4,532,738</u>	<u>357,892</u>
Net Assets		
Invested in Capital Assets—Net of Related Debt	79,777	4,050
Unrestricted	162,193	313,294
Total Net Assets	<u>\$ 241,970</u>	<u>\$ 317,344</u>

The above analysis focuses on net assets. The current and other assets decreased \$75,374 as a result of the School's negative change in net assets. Capital assets increased due to construction in progress on a new building. Long-term liabilities increased due to the issuance of a bond, partially offset by normal principal repayment. The net assets are comprised of two components. Invested in capital assets, net of related debt represent the Schools net assets invested in buildings and equipment less the related debt. The remaining amount of net assets of \$162,193 was unrestricted.

The \$271,846 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used to provide working capital and cash flow requirements as well as providing for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal year 2006.

Statement of Activities

	2006 Governmental Activities	2005 Governmental Activities
<i>Functions/Programs</i>		
Program Revenue		
Charges for Services	\$ 17,535	\$ 27,700
Operating Grants	21,743	48,759
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	845,570	739,692
Unrestricted Investment Earnings	3,522	1,414
Miscellaneous	17,370	15,331
Total General Revenues	905,740	832,896
Expenses		
Instruction	598,166	497,276
Support Services	292,164	259,089
Interest on Long-term Debt	64,339	24,834
Unallocated Depreciation	26,445	21,280
Total Governmental Activities	981,114	802,479
Change In Net Assets	(75,374)	30,417
Net Assets – beginning of year	317,344	286,927
Net Assets – ending of year	\$ 241,970	\$ 317,344

Change in Net Assets

The School experienced a decrease in net assets of \$75,374. A key reason for the decrease in net assets were expenses related to construction of our new facility which included interest on the new bond. Instruction expenses increased for salaries, benefits and training. Because of increased enrollment, middle school programs were expanded, elementary classrooms were added and two teachers were hired. These increases were partially offset by an increase in state aid income.

As discussed above, the net cost shows the financial burden that was placed on the School by each of these functions. Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the School and balance those needs with state-prescribed available unrestricted resources.

The School's Funds

As we noted earlier, the School uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School is being held accountable for the resources taxpayers and others provide to it and may provide more insight into the School's overall financial health.

In the General Fund, our principal operating fund, the fund balance decreased \$31,213 to \$278,464. The primary reasons for the decrease are as follows:

- Expenses related to construction of new facility
- Increases in staff salaries and benefits for additional teachers hired

The Capital Projects Fund was created in the current year to track the proceeds from a bond issued and the related expenses of the building project.

The General Fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements).

There were revisions made to the 2005-2006 General Fund original budget. State source revenues were increased \$7,000 from the original budget due to increased funding. The instruction budget was increased by \$21,740 due to an increase in retirement costs, supplies and training. These items were increased once the State foundation allowance was not reduced. The operations and maintenance budget was increased due to unusual and unexpected required repair and maintenance. Other categories were adjusted to match anticipated expenditures as the year progressed.

The budget to actual revenue variations amounts are primarily the result of actual special education revenues being reclassified to comply with State of Michigan requirements. Classifications used with the original budget were different than those used for the State of Michigan requirement. Instruction expenditures ended the year higher than anticipated due to an increase in salaries, retirement and other employee benefits. Business support services were, also, higher than anticipated due to ISD testing, increased camp expenditures and unexpected asbestos testing.

Capital Asset and Debt Administration**Capital Assets**

At June 30, 2006, the School had \$393,231 (after accumulated depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$62,869 from last year.

	<u>2006</u>	<u>2005</u>
Buildings and Land	\$ 498,875	\$ 411,735
Furniture and Equipment	52,849	55,799
Total Capital Assets	<u>551,824</u>	<u>467,534</u>
Accumulated depreciation	<u>158,593</u>	<u>137,172</u>
Total Assets, Net	\$ <u>393,231</u>	\$ <u>330,362</u>

We present more detailed information about our capital assets in the notes to the financial statements.

Long-term Debt

At June 30, 2006, the School had \$316,249 in debt relating to a building mortgage and \$4,127,043 in bonds relating to building construction. The School, also, issued \$295,000 in State of Michigan school aid anticipation notes to purchase the land for the new building. The notes were paid prior to June 30, 2006.

Economic Factors and Next Year's Budget

Our appointed officials and administration considered many factors when setting the School's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The fiscal year 2007 budget anticipates an increase in enrollment of approximately 40 students. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The original 2007 budget was adopted in June 2006 and anticipated an increase in fund balance of \$237,000. This budget will probably be amended to reflect anticipated costs for a new facility. These amendments will be made as expenditures become known.

As mentioned earlier, the School is in the process of constructing a new facility. The anticipated closing on the building will occur in December 2006, and occupancy will occur in January 2007. The School is in negotiations to sell the existing building.

Approximately 93 percent of total General Fund revenue comes from the state foundation grant and categorical payments. As a result, direct funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be near the estimates used in creating the fiscal 2007 budget. Once the final student count and related per pupil funding is validated, state law requires the School to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School's revenue is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to Schools. The state periodically holds a revenue-estimating conference to estimate revenues.

Contacting the School Financial Management

The financial report is designed to provide a general overview of the School's finances for all those interested in the School's finances. If you have any questions about this report or need additional information, contact Walden Green Montessori, 17771 W. Spring Lake Road, Spring Lake, Michigan 49456.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 23, 2006

Board of Directors
Walden Green Montessori
Spring Lake, Michigan

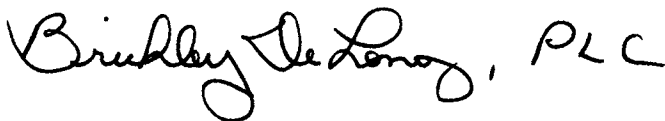
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Walden Green Montessori (the School) as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Walden Green Montessori's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Walden Green Montessori, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2006, on our consideration of Walden Green Montessori's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i -vi and page 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Walden Green Montessori
STATEMENT OF NET ASSETS
June 30, 2006

	ASSETS	Governmental activities
CURRENT ASSETS		
Cash and cash equivalents		\$ 96,712
Investments		3,826,100
Receivables		1,587
Due from other governmental units		153,340
Total current assets		<u>4,077,739</u>
NONCURRENT ASSETS		
Capital assets, net		
Nondepreciable		102,240
Depreciable		290,991
Bond issuance costs, net		301,424
Mortgage issuance costs, net		2,314
Total noncurrent assets		<u>696,969</u>
Total assets		<u>4,774,708</u>
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		77,046
Due to other governmental units		12,400
Bonds and other obligations, due within one year		10,758
Total current liabilities		<u>100,204</u>
NONCURRENT LIABILITIES		
Bonds and other obligations, less amounts due within one year		4,432,534
Total liabilities		<u>4,532,738</u>
NET ASSETS		
Invested in capital assets, net of related debt		79,777
Unrestricted		162,193
Total net assets		<u>\$ 241,970</u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		Net (Expense)
		<u>Charges for</u>	<u>Operating grants</u>	Revenue and
		<u>services</u>	<u>and contributions</u>	Changes in
				Net Assets
				<u>Governmental</u>
				<u>activities</u>
Governmental activities				
Instruction	\$ 598,166	\$ 17,535	\$ 21,743	\$ (558,888)
Support services	292,164	-	-	(292,164)
Interest on long-term debt	64,339	-	-	(64,339)
Unallocated depreciation and amortization	26,445	-	-	(26,445)
Total governmental activities	<u>\$ 981,114</u>	<u>\$ 17,535</u>	<u>\$ 21,743</u>	(941,836)
General revenues				
Grants and contributions not restricted to specific programs				845,570
Restricted investment earnings				3,522
Miscellaneous				17,370
Total general revenues				<u>866,462</u>
Change in net assets				(75,374)
Net assets at July 1, 2005				<u>317,344</u>
Net assets at June 30, 2006				<u>\$ 241,970</u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
BALANCE SHEET
Governmental Funds
June 30, 2006

	General Fund	Capital Projects Fund	Total governmental funds
ASSETS			
Cash and cash equivalents	\$ 96,712	\$ -	\$ 96,712
Investments	-	3,826,100	3,826,100
Receivables	1,587	-	1,587
Due from other governmental units	153,340	-	153,340
Due from other funds	75,876	-	75,876
Total assets	<u>\$ 327,515</u>	<u>\$ 3,826,100</u>	<u>\$ 4,153,615</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 23,961	\$ -	\$ 23,961
Accrued liabilities	12,690	-	12,690
Due to other governmental units	12,400	-	12,400
Due to other funds	-	75,876	75,876
Total liabilities	49,051	75,876	124,927
Fund balances			
Reserved for capital projects	-	3,750,224	3,750,224
Unreserved	278,464	-	278,464
Total fund balances	<u>278,464</u>	<u>3,750,224</u>	<u>4,028,688</u>
Total liabilities and fund balances	<u>\$ 327,515</u>	<u>\$ 3,826,100</u>	<u>\$ 4,153,615</u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2006

Total fund balance—governmental funds	\$	4,028,688
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources
and are not reported in the governmental funds.

Cost of capital assets	\$ 551,824	
Accumulated depreciation	<u>(158,593)</u>	393,231

Mortgage and bond issuance costs are not capitalized and amortized in the
governmental funds.

Mortgage issuance costs	9,915	
Bond issuance costs	303,108	
Accumulated amortization	<u>(9,285)</u>	303,738

Accrued interest in governmental activities is not reported in the governmental funds.		(40,395)
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Long-term liabilities in governmental activities are not due and payable in the current
period and are not reported in the governmental funds.

Bonds and notes payable		<u>(4,443,292)</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>241,970</u></u>
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The accompanying notes are an integral part of this statement.

Walden Green Montessori
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES**

Governmental Funds

For the year ended June 30, 2006

	General Fund	Capital Projects Fund	Total governmental funds
REVENUES			
Local sources			
Program fees	\$ 17,535	\$ -	\$ 17,535
Fundraising	17,370	-	17,370
Investment earnings	-	3,522	3,522
Total local sources	<u>34,905</u>	<u>3,522</u>	<u>38,427</u>
State sources	845,570	-	845,570
Federal sources	<u>10,757</u>	<u>-</u>	<u>10,757</u>
Total revenues	891,232	3,522	894,754
EXPENDITURES			
Instruction	593,117	-	593,117
Support services	305,627	-	305,627
Debt Service			
Principal	10,064	-	10,064
Interest and other charges	24,623	-	24,623
Bond issuance cost	-	303,108	303,108
Capital Projects	<u>-</u>	<u>75,876</u>	<u>75,876</u>
Total expenditures	<u>933,431</u>	<u>378,984</u>	<u>1,312,415</u>
Deficiency of revenues under expenditures	(42,199)	(375,462)	(417,661)
OTHER FINANCING SOURCES (USES)			
Transfers from other governmental units and other transactions	10,986	-	10,986
Bond proceeds	-	4,370,000	4,370,000
Discount on bonds	<u>-</u>	<u>(244,314)</u>	<u>(244,314)</u>
Total other financing sources (uses)	<u>10,986</u>	<u>4,125,686</u>	<u>4,136,672</u>
Net change in fund balances	(31,213)	3,750,224	3,719,011
Fund balances at July 1, 2005	<u>309,677</u>	<u>-</u>	<u>309,677</u>
Fund balances at June 30, 2006	<u>\$ 278,464</u>	<u>\$ 3,750,224</u>	<u>\$ 4,028,688</u>

The accompanying notes are an integral part of this statement.

Walden Green Montessori
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2006

Net change in fund balances—governmental funds	\$	3,719,011
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$	(25,088)	
Capital outlay		<u>387,398</u>	362,310

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(4,127,043)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		10,063
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		<u>(39,715)</u>
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Change in net assets of governmental activities	\$	<u><u>(75,374)</u></u>
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The accompanying notes are an integral part of this statement.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Walden Green Montessori (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Reporting Entity

The School is governed by an appointed five-member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

School-wide and Fund Financial Statements

School-wide Financial Statements – The primary focus of school-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The school-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School does not allocate indirect costs.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

School-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School functions typically are financed. The acquisition, use and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental funds:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- The *Capital Projects Fund* accounts for the use of the proceeds from the 2006 Limited Obligation Revenue Bonds. The Bonds were issued on May 1, 2006 and may be used for the construction of a school building.

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to schools based on information supplied by the schools. For the year ended June 30, 2006, the Foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported at “due to/from other funds”. The School had no advances between funds.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	10-30 years
Buses and other vehicles	5 years
Furniture and other equipment	3-10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Deferred Revenue

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In School-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the General Fund. All annual budgets lapse at year end.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The President submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain constituent comments.
3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School does not consider these amendments to be significant.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the School had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Moody's	Percent
Money market mutual fund	\$ 103,142	1	Aaa	2.7 %
Federal agency bonds	<u>3,722,958</u>	<u>157</u>	AAA	<u>97.3</u>
Total fair value	<u>\$ 3,826,100</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>153</u>		

Interest rate risk. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the School's investments are in federal agency bonds issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. These investments are 89.23 percent and 6.16 percent, respectively, of the School's investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2006, \$6,201 of the School's bank balance of \$106,201 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School is not authorized to invest in investments which have this type of risk.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 15,000	\$ 10,000	\$ -	\$ 25,000
Construction in progress	9,738	67,502	-	77,240
Total capital assets, not being depreciated	24,738	77,502	-	102,240
Capital assets, being depreciated:				
Buildings and improvements	396,735	-	-	396,735
Furniture and equipment	46,061	6,788	-	52,849
Total capital assets, being depreciated	442,796	6,788	-	449,584
Less accumulated depreciation:				
Buildings and improvements	99,996	15,718	-	115,714
Furniture and equipment	37,176	5,703	-	42,879
Total accumulated depreciation	137,172	21,421	-	158,593
Total capital assets, being depreciated, net	305,624	(14,633)	-	290,991
Capital assets, net	\$ 330,362	\$ 62,869	\$ -	\$ 393,231

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Bond issuance costs	\$ -	\$ 303,108	\$ -	\$ 303,108
Less accumulated amortization	-	1,684	-	1,684
Bond issuance costs, net	\$ -	\$ 301,424	\$ -	\$ 301,424

Amortization

Amortization expense has been charged as unallocated amortization.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Capital Projects	\$ 75,876

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE G—SHORT-TERM DEBT

The School issued State of Michigan school aid anticipation notes to provide short-term funds for the purchase of land. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School. The short-term debt activity for the year ended June 30, 2006 follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>
State aid anticipation note				
2005/2006 8.00% due June 2006	\$ -	\$ 295,000	\$ 295,000	\$ -

NOTE H—LONG-TERM OBLIGATIONS

The School issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the School.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due within one year</u>
Governmental activities:					
Bonds	\$ -	\$ 4,127,043	\$ -	\$ 4,127,043	\$ -
Mortgage	326,312	-	10,063	316,249	10,758
	<u>\$ 326,312</u>	<u>\$ 4,127,043</u>	<u>\$ 10,063</u>	<u>\$ 4,443,292</u>	<u>\$ 10,758</u>

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

2006 Limited Obligation Revenue Bond	
payable in annual installments ranging from	
\$35,000 to \$305,000 due October 2008 to	
April 2036; plus interest ranging from	
5.00% to 5.625% payable semi-annually	\$ 4,370,000
Less issuance discount	<u>(242,957)</u>
	4,127,043

The mortgage consists of the following:

Building mortgage payable in monthly	
installments of \$2,843 including interest at	
7.5%; final balloon payment of	
approximately \$305,000 due August 2007	<u>316,249</u>
	<u><u>\$ 4,443,292</u></u>

The annual requirements of principal and interest to amortize bonded debt and mortgages outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	10,758	122,683	133,441
2008	305,491	242,189	547,680
2009	35,000	238,375	273,375
2010	60,000	236,625	296,625
2011	70,000	233,625	303,625
2012-2016	425,000	1,110,625	1,535,625
2017-2021	550,000	990,250	1,540,250
2022-2026	720,000	827,475	1,547,475
2027-2031	950,000	604,475	1,554,475
2032-2036	<u>1,560,000</u>	<u>314,016</u>	<u>1,874,016</u>
	<u><u>\$ 4,686,249</u></u>	<u><u>\$ 4,920,338</u></u>	<u><u>\$ 9,606,587</u></u>

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED

June 30, 2006

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS, for the School's single employee. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 16.34 percent of payroll. The contribution requirements of plan members and the School are established and may be amended by the MPSERS Board of Trustees. The School contributions to MPSERS for the year ended June 30, 2006, 2005, and 2004 were approximately \$13,000, \$10,600, and \$9,700, respectively, and were equal to the required contribution for those years.

The School is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Walden Green Montessori
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE J—COMMITMENTS AND CONTINGENCIES

Construction contracts – As of June 30, 2006, the School has awarded construction contracts totaling \$3,224,050 plus interest of which no expenditures had been incurred. The School's agreement with the construction contractor provides that the School will acquire the facility and certain equipment for the \$3,224,050 plus interest, once the facility is completed and receives occupancy permits. The School anticipates that such acquisition will occur on or about December 22, 2006. The contracts are the obligations of the Capital Projects Fund and the School.

NOTE K—OTHER INFORMATION

Economic Dependence

Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 96 percent of General Fund revenues.

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

Leased Employees

Management Services Agreement

The School leases its employees, with the exception of one employee, from an employee leasing company (Company) and is no longer required to have these School employees covered by MPSERS.

Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

Defined Contribution Plan

The Company maintains a defined contribution plan covering substantially all of the leased employees.

In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Contributions and costs are determined as 8 percent of each covered employee's salary. For the year ended June 30, 2006, the contributions totaled approximately \$30,200, and the employee contributions were approximately \$4,700.

REQUIRED SUPPLEMENTARY INFORMATION

Walden Green Montessori
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 45,000	\$ 35,000	\$ 34,905	\$ (95)
State sources	835,000	842,000	845,570	3,570
Federal sources	-	-	10,757	10,757
Incoming transfers and other transactions	34,000	132,000	10,986	(121,014)
Total revenues	914,000	1,009,000	902,218	(106,782)
EXPENDITURES				
Instruction	561,000	597,600	593,117	4,483
Support services				
General administration	206,000	201,300	197,420	3,880
Business	10,000	31,500	30,547	953
Operations and maintenance	63,500	64,300	77,660	(13,360)
Outgoing transfers and other transactions	38,500	118,900	34,687	84,213
Total expenditures	879,000	1,013,600	933,431	80,169
Excess (deficiency) of revenues over (under) expenditures	\$ 35,000	\$ (4,600)	(31,213)	\$ (26,613)
Fund balance at July 1, 2005			309,677	
Fund balance at June 30, 2006			\$ 278,464	

OTHER DOCUMENTS

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

October 23, 2006

Board of Directors
Walden Green Montessori
Spring Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Walden Green Montessori as of and for the year ended June 30, 2006, which collectively comprise Walden Green Montessori's basic financial statements and have issued our report thereon dated October 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Walden Green Montessori's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Walden Green Montessori's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

BRICKLEY DELONG

Board of Directors

October 23, 2006

Page 2

Compliance

As part of obtaining reasonable assurance about whether Walden Green Montessori's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 23, 2006

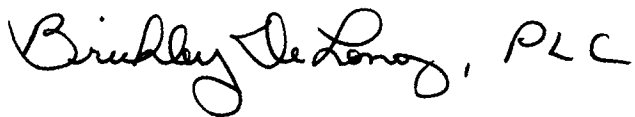
Board of Directors
Walden Green Montessori
Spring Lake, Michigan

In planning and performing our audit of the financial statements of Walden Green Montessori for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Walden Green Montessori's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Board of Directors, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITIONS

Recommendation 1: Appropriate segregation of duties should be established.

During our testing, we noted that the Director has access to all areas of operations including cash, accounts receivable, accounts payable, and payroll.

It is inherently difficult to maintain proper segregation of duties, but the School should look for opportunities to further enhance its internal controls.